



U.S. Department of Agriculture
Office of Inspector General
Western Region
Audit Report

RISK MANAGEMENT AGENCY
INDEMNITY PAYMENTS TO PRUNE
PRODUCERS IN CALIFORNIA –
PRODUCER C



Report No.
05099-6-SF
May 2001

DATE: May 8, 2001

REPLY TO

ATTN OF: 05099-6-SF

SUBJECT: Indemnity Payments to Prune Producers in California – Producer C

TO: Phyllis Honor
Acting Administrator
Risk Management Agency

ATTN: Garland Westmoreland
Deputy Administrator
Risk Compliance

This report presents the results of our audit of the Risk Management Agency's (RMA) indemnity payments made to a prune producer in California. Our objective was to resolve production discrepancies that we identified for six producers during our survey of prune production in California for 1997 through 1999. This report covers one of the six producers, whom we are identifying as "producer C." When filing an insurance claim for 1998, producer C did not report 10 acres and the associated 33.9 tons of prune production which resulted in an overpayment of \$17,451.

BACKGROUND

The Federal Agriculture Improvement and Reform Act of 1996 established RMA. RMA is responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act of 1980, and other programs designed to manage risk and support farm income. FCIC provides crop insurance through a network of approved private insurance companies that are reinsured by FCIC. With the implementation of the single delivery system in 1998, these companies have sold and serviced all crop insurance policies that insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease.

A producer suffering an insured loss then reports the loss to his insurance provider. In order for the insurance provider to determine the amount of the loss, the producer must show the insurance provider proof of his production. Prune producers generally use copies of their "Inspection Report and Certification" Form (form P-1) as evidence of their production.

The insurance provider is responsible for verifying that the production amounts reported by the producer are correct. If the amount of production is less than the guaranteed level of production per the insurance policy, the producer is entitled to an indemnity; i.e., a

reimbursement against loss or damage. This is calculated by multiplying the production loss amount by the price elected by the producer.

In California, the Dried Fruit Association (an independent third party) inspects the prunes and generates the form P-1's. After the prunes have been dried and delivered to a packinghouse, the Dried Fruit Association inspects a sample from each lot and determines its weight, size, and quality. The inspection results are reported on the form P-1 and distributed to the producer, handler, and the Prune Marketing Committee (PMC). PMC maintains records for all dried fruit production in California.

OBJECTIVE

Our objective was to resolve the discrepancies identified between the production reported to PMC and the production reported by producer C to the insurance provider.

SCOPE

During the survey phase of our audit, we looked at concerns about the inaccurate reporting of production by prune producers, which could be, among other things, an indicator of shifting production to increase indemnities. We limited our review to California producers because California prune orchards produce 99 percent of U.S. production. We selected a judgmental sample of 20 producers to review based on the following criteria: (1) the policy had multiple units or parcels of land (which would allow shifting of production), (2) at least one of the units received no indemnity payment (which would provide the opportunity to falsely assign production to that unit), and (3) the indemnity was among the largest paid. Our scope covered crop years¹ 1997 through 1999.

We found discrepancies in the production reported by 6 of the 20 producers in our sample. Based on the survey results, we decided to conduct audits of each of the six producers to resolve the questions about the discrepancies. Producer C is one of the six producers.

Audit fieldwork was performed from April through August 2000 at RMA's Davis regional office located in Davis, California; the Rain and Hail Insurance Service Inc. office (insurance provider), located in Fresno, California; and the Sutter/Yuba Farm Service Agency (FSA) County office located in Yuba City, California.

This audit was performed in accordance with generally accepted government auditing standards.

¹ A crop year is designated by the calendar year in which the insured crop is normally harvested.

METHODOLOGY

To accomplish our objectives and support our findings, we performed the following procedures.

- We compared form P-1's obtained from PMC to production amounts used by the insurance provider to calculate producer C's indemnities.
- We analyzed producer files obtained from the insurance provider to determine if producer C's indemnities were adjusted in accordance with approved procedures.
- We interviewed RMA and FSA officials, producers, handlers, and other persons to resolve production discrepancies.

FINDING

For crop year 1998, producer C failed to report 33.9 tons of production from a 10-acre orchard, resulting in an understated total production of 178.4 tons. The producer told us that he did not report or insure this 10-acre orchard as their fifth unit because it was interplanted with another crop. However, during 1998 interplanted prunes were insurable. As a result, producer C was overpaid \$17,451 out of \$48,825 in indemnity payments.

The Prune Crop Provisions² state "prunes interplanted with another perennial crop are insurable [and] the crop insured will be all the prunes in the county...in which you [the insured] have a share." In addition, the Crop Insurance Policy³ requires that "an annual acreage report must be submitted to us on our form for each insured crop in the county....This report must include the following information if applicable: (1) all acreage of the crop (insurable and not insured) in which you [the insured] have a share."

We attempted to reconcile the 1998 production that producer C had reported to the insurance provider with production data maintained by PMC. In PMC records, we found that two form P-1's, representing 33.9 tons of production for an unreported orchard, had not been reported to the insurance provider.

The producer told us that he did not report or insure the 10 acres of prunes because they were interplanted with peaches. However, the Crop Insurance Policy required that all acreage must be reported, and new crop provisions for 1998 required that interplanted prunes be insured.⁴

² FCIC 98-036, Section 6 and 7, dated 1998.

³ FCIC 92B1, Sections 6(a), dated 1998.

⁴ Producers are provided with copies of the Crop Insurance Policy and the Prune Crop Provisions when they initially insure their crops and are given updated copies when provisions are changed.

In addition to the unreported acreage and production, we noted that producer C's orchards had very uneven yields in 1998. The producer maintained five orchards of prunes, all within a radius of about 2.5 miles, yet he experienced a crop loss in 1998 on only his two largest units with the highest production guarantees (see table 1).

Table 1: Comparison of the Historical Yield to the 1998 Yield

	Unit 101	Unit 102	Unit 103	Unit 104	Unreported Acreage	Totals
Acres	78.9	17.3	18.5	15.6	10 ^c	140.3
APH (Historical Yield)	3.2	1.8	2.3	2.3		
1998 Yield^a	1.3	1.6	.6	2.2	3.4	
Production Guarantee ^b	2.1	1.2	1.5	1.5		
Indemnity	\$37,989	\$0	\$10,836	\$0		\$48,825
^a The 1998 yield was calculated by dividing the acreage for each unit into the total production for that unit, as reported by the producer. ^b If the amount of production is less than the guaranteed level of production, per the insurance policy, the producer is entitled to an indemnity; i.e., a reimbursement against loss or damage. ^c This was the producer's estimate of prune acreage interplanted with peaches.						

As the table shows, the two insured units with relatively low production guarantees were able to produce yields that were very close to their historical averages while the two units with losses produced yields that were 60 to 74 percent below their historical averages.⁵ The smallest orchard, which had been uninsured (and, therefore, not inspected by the loss adjuster), produced the highest yield. Under the circumstances, we believe the accuracy of the producer's reported production per unit and the resulting yields are questionable. However, we were unable to confirm that production had been shifted between units to increase indemnities.

The Loss Adjustment Manual⁶ states that "if the insured fails to report acreage which could have been established as a separate unit, the insured's share of production from the acreage in the unreported unit will be allocated to the acreage in the REPORTED unit(s) in proportion to the liability on the insured acreage on each reported unit." Following these guidelines, we allocated the 33.9 tons from the unreported acreage to reported units 101, 102, 103 and 104. The allocation resulted in an additional 23.7 tons to be applied to unit 101 and 4.0 additional tons to be applied to unit 103. Units 102 and 104 were not affected by the allocation of the remaining 6.2 tons, as those units did not receive indemnity payments for crop year 1998 (see exhibit B).

Based on the above allocation, we recalculated the indemnity payments for units 101 and 103 and determined that the producer was overpaid \$14,931 on unit 101 and \$2,520 in unit 103 for a total overpayment of \$17,451 (see exhibit C).

⁵ Unit 101: $3.2 - 1.3 = 1.9$, $1.9/3.2 = .59$; Unit 103: $2.3 - .6 = 1.7$, $1.7/2.3 = .74$.

⁶ FCIC 25010, paragraph 151, dated January 1998.

Recommendation No. 1:

Collect the overpayment of \$17,451 for units 101 and 103 from the insurance provider.

RMA Response:

RMA conditionally concurred with our finding and recommendation. RMA will conduct an internal review by July 31, 2001, at which time it will make a final determination regarding the overpayment for units 101 and 103.

OIG Position:

We are unable to accept your management decision until we review your final determination.

Recommendation No. 2:

Instruct the insurance provider to require the producer to insure the unreported prune acreage for any future year that the producer participates in the crop insurance program.

RMA Response:

RMA conditionally concurred with our finding and recommendation. RMA will conduct an internal review by July 31, 2001, at which time it will make a final determination regarding insurance for the producer's unreported prune acreage.

OIG Position:

We are unable to accept your management decision until we review your final determination.

CONCLUSIONS AND REQUIRED AGENCY ACTIONS:

Your April 24, 2001, response to the draft report has been included as exhibit D of this report. We are unable to accept your management decision for either Recommendation No. 1 or Recommendation No. 2. Please note that Departmental Regulation 1720-1 requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from the date of report issuance.

The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action for findings and recommendations. Please note that final action on the finding and recommendations should be completed within 1 year of each management decision. Follow your agency's internal procedures in forwarding final action correspondence to OCFO.

We appreciate the assistance and cooperation of your staff during our audit.

/s/

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	The producer underreported its insurable acreage and the resulting production.	\$17,451	Questioned Costs – Recovery Recommended
TOTAL MONETARY RESULTS		\$17,451	

EXHIBIT B – ALLOCATION OF PRODUCTION TO REPORTED UNITS

-A-	-B-	-C-	-D-	-E- (B x C x D)	-F- E / 236.70	-G-	-H- (F x G / D)
Unit	Acres	Guarantee	Share	Unit Liability	Unit Liability Factor	Unreported Production	Allocated production
101	78.9	2.1	1.00	165.69	.7000	33.9	23.7
102	17.3	1.2	1.00	20.76	.0877	33.9	3.0
103	18.5	1.5	1.00	27.75	.1172	33.9	4.0
104	15.0	1.5	1.00	22.50	.0951	33.9	3.2
Totals				236.70	1.00		33.9

EXHIBIT C – CLAIM COMPUTATION WORKSHEET

-A- Unit No.	-B- APH Yield ⁷	-C- Coverage Level ⁸	-D- (B x C) Guarantee Per Acre ⁹	-E- Acres	-F- (D x E) Unit Guarantee	-G- Production To Count ¹⁰	-H- (F - G) Unit Loss	-I- Price Election ¹¹	-J- (H x I) Indemnity Amount ¹²
Indemnity Calculation Per Insurance Provider:									
101	3.2	0.65	2.1	78.9	165.7	105.4	60.3	\$ 630	\$ 37,989
103	2.3	0.65	1.5	18.5	27.8	10.6	17.2	\$ 630	\$ 10,836
Insurance Provider totals:						116.0			\$ 48,825
Indemnity Calculation Per Audit:									
101	3.2	0.65	2.1	78.9	165.7	129.1	36.6	\$ 630	\$ 23,058
103	2.3	0.65	1.5	18.5	27.8	14.6	13.2	\$ 630	\$ 8,316
Audit totals:						143.7			\$ 31,374
Differences:						27.7			\$ 17,451

⁷ The actual production history (APH) yield is the sum of the annual yields divided by the number of years in the database. The approved APH may contain up to 10 consecutive crop years of actual and/or assigned yields.

⁸ The coverage amount is the insurance provided by the crop insurance policy against insured loss of production or value, by unit, as shown on the producer's summary of coverage. Producer C elected a coverage level of 65 percent of the APH.

⁹ The guarantee per acre is shown in tons of production.

¹⁰ The total production to count (in tons) will include all harvested and appraised production of natural condition prunes that grade substandard or better and any production that is harvested and intended for use as fresh fruit.

¹¹ RMA established a price election of \$630 per ton for California prunes for crop year 1998.

¹² The indemnity amount is the reimbursement against loss or damage.

EXHIBIT D – RMA'S WRITTEN RESPONSE TO THE DRAFT REPORT



United States Department of Agriculture
Farm and Foreign Agricultural Services
Risk Management Agency

APR 24 2001

TO: Ernest M Hayashi
Director, Farm & Foreign Agricultural Division
Office of Inspector General

FROM: Garland D. Westmoreland *for Ellen Meade-Hubbs*
Deputy Administrator for Risk Compliance

SUBJECT: OIG Audit Discussion Draft 05099-6-SF, Indemnity Payments to Prune Producers
in California - Producer C

I have reviewed the subject report and conditionally concur with the findings. The Director of the Risk Management Agency's Western Regional Compliance Office (WRCO) will request copies of the audit working papers from your San Francisco Office. If the WRCO concurs with the audit findings and recommendations, they will issue an initial determination to the insurance provider. If the WRCO does not concur, they will provide the basis for the non-concurrence with recommendations for resolving them. The WRCO expects to complete its review and issue either an initial determination or reasons for non-concurrence by July 31, 2001.



•1400 Independence Ave., SW•Stop 0801•Washington, DC 20250-0801

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